FOREIGN TRADE ISSUES

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My remarks like those of most speakers are preconditioned by certain beliefs, or perhaps I should say prejudices, that I hold. I am centering my remarks around three of those beliefs. First, the most important issue by far in agricultural trade is the influence of domestic agricultural programs; second, this can be seen most clearly in the current debate between the United States and the European Common Market; and third, the ultimate resolution of that debate may set the conditions for agricultural trade for many decades to come. Please do not infer from this that European trade is all that matters. This is far from true. But, the manner in which we and the Common Market countries resolve the conflict between domestic agricultural programs and trade may set the pattern for trade among all developed economies. Furthermore, the treatment by the Common Market of its former territories regarding trade in tropical products and its position, along with that of the United States, on food aid to developing nations may set the pattern in this regard for the entire world.

I have one other prejudice that should be called to your attention. Underlying my remarks, particularly those toward the close of the paper, is a belief that a successful Common Market is of general economic and political value to the United States. Although we have no assurance that the ultimate destiny of the Common Market will be success in this sense, we also do not have sufficient cause to give up hope.

THE IMPORTANCE OF GOVERNMENT PROGRAMS

Until we reach the millennium when world-wide free trade is a reality, government will always be a potent force in determining both the volume and the terms of trade. But, in modern developed economies the actions of government insofar as agricultural trade is concerned have become less and less a matter of direct trade policy determination and more and more an indirect result of domestic price policy determination. As I will discuss in greater detail later, this is the fact that makes the inclusion of agriculture in the Trade Expansion talks at GATT (General Agreement on Tariffs and Trade) such a difficult problem.

In the United States we seem very prone to ignore the role of government in our own agricultural trade—regarding both exports and imports. For the moment let us talk about exports. Each time I read a report citing a new record volume of agricultural exports by the United States I feel a strong desire to write a letter to the editor asking him to give credit where credit is due. The official USDA reports are far better in this regard than they were a few years ago, but the glowing reports issued by the trade and those generally published in the popular press fail to recognize adequately the role of government in the total trade process. In the year ending June 30, 1962, for example, we exported 5.1 billion dollars of agricultural goods. Of this total 1.6 billion dollars, or 32 percent, was financed under special government programs, primarily Public Law 480. An additional 20 percent of these sales were made possible through export payments. If we were to check the records closely we would find that most of the remaining sales were influenced in some indirect fashion by government. Let me cite just one example.

We have read a *little* in the papers recently about our poultry sales to Germany. The development of that trade is a fascinating story. It began in 1956 with a small Title I, P. L. 480, transaction. The trade on both sides was reluctant to take the risks associated with opening this market. Even with the P. L. 480 provisions the pump had to be primed with a freight subsidy. Since that initial contract all sales have been for dollars and without subsidy. Thanks in part to a strong market development effort financed and promoted largely by government in cooperation with the trade, this market has grown to the point where we exported more than 50 million dollars of poultry to Germany in 1961. What share of the credit for this success goes to government and what share belongs to the trade is anybody's guess. But nobody should claim that either deserves all the credit.

The governmental influence on agricultural trade is not restricted to the exporting side. A variety of devices, including import levies, skimming charges, quotas, health and sanitation regulations, etc., have been employed by importing countries. The effects of these measures on the volume and terms of trade must at least equal the effects of subsidies and other devices employed by exporters. In this connection our attention all to often is focused on tariffs. As a matter of fact, recent studies in GATT and elsewhere reveal that nontariff barriers have been a far more important factor where agriculture is concerned. We in the United States certainly cannot claim to be innocent in this regard.

Let me call your attention to one more point, the often misused and poorly conceived idea of "world price." We frequently hear that subsidies are required to sell U. S. wheat or U. S. cotton in world markets because domestic prices are above world prices. Certainly this is true if we think of world prices as the price at which goods exchange in world trade. All too often, however, the term "world price' is used as if it implies some sort of free-market equilibrium price determined in a world-wide market where goods and factors move freely in response to economic conditions. I doubt if any major agricultural commodity entering world trade is marketed under conditions even remotely resembling such a situation. The world price of wheat today, for example, is quite largely a function of the size of the subsidy paid by exporters, the levies charged by importers, levels of domestic price support, degrees of production control, and the conditions imposed by the International Wheat Agreement. Incidentally, I consider the latter far less significant than is often claimed since it was largely superimposed on the domestic support programs that preceded it. Few domestic policies have been forced to change in order to accommodate the conditions of the IWA.

I do not know whether the so-called "free-market world price" of wheat is above or below the figure at which wheat currently is being traded. I am really not even certain that whether we do know this makes any difference. But if the present trading price is even close to such a price, it is purely coincidence.

This, then, establishes the major theme of my paper. World trade in agricultural commodities has not been determined strictly by economic factors. It will not be determined largely by such factors for a long time. In the developing countries, export and import programs to facilitate economic development and to regulate precarious balance-of-payments situations will continue to exist. This will be so even if food aid programs such as our P. L. 480 program should be terminated; and I do not expect that to happen. In developed countries relatively low levels of agricultural prices and incomes will continue to constitute a major domestic economic and political problem. No government in the developed world appears willing or able to forego support programs designed to alleviate these problems. Yet, such programs are inherently in conflict with the generally expressed desire for freer trade. Despite this fact, seldom has any serious attempt been made to reduce this conflict in the development of farm programs.

Two of the most crucial problems facing agricultural economists as researchers and as educators in the decade ahead relate directly to these points. One is the problem of gaining a better understanding of the role of food in economic development. This includes both indigenous food supplies and those obtained through food assistance programs. The second problem is how to develop domestic agricultural programs in the developed countries that are in some sense less in conflict with the generally expressed desires for freer trade.

The two problems are related. For example, we cannot realistically separate the issue of food aid from that of domestic agricultural programs. However, for our purposes today I intend to talk primarily about the issues relating to trade in the developed countries. This implies that we are going to be referring primarily to temperate zone or semi-tropical agricultural products.

THE U. S. – COMMON MARKET DEBATE

The second belief I cited earlier was that the influence of domestic agricultural programs can be seen most clearly in our current debate with the Common Market. Let me develop this point somewhat, although I am sure we all recognize that anything I might say would be all too brief to cover the topic properly.

The most significant feature of the debate and, I believe, the one least well accepted by the American public, is that both sides face the same fundamental economic, social, and political problems in the agricultural sector. In each case that broad problem is coping with a situation where agricultural productive capacity is expanding more rapidly than needs. Because of the failure or inability to adjust resources adequately, agricultural incomes tend to fall below those in the rest of society. In the absence of government programs, agricultural incomes would lag behind those of their urban neighbors to a still greater degree than in the recent past.

Surprisingly enough, when viewed in broad terms the Common Market and the United States are attempting to solve their agricultural difficulties, or perhaps we should say *alleviate* their price and income difficulties, in much the same fashion also. In both areas, direct market intervention is limited primarily to major crops. In both areas incomes are supported by supporting prices. In both areas the desired level of prices for supported commodities will be achieved by restricting quantities flowing through the market. This last point is where the Common Market program deviates significantly from that in the United States. As an exporting nation, we in the United States have been forced to control marketings by a variety of programs including: loan and storage, production control, and restrictions on imports. The Common Market, however, is an importing area for many commodities and particularly for grains. As a result, it can achieve the necessary restriction on marketings for the most part simply by regulating imports, and this is what is intended. In other words, the Common Market also is operating a supply management program, but the restrictive effects of management are felt primarily by producers outside the Common Market countries.

Analysis of the Common Market agricultural policy situation is particularly complicated because of the transitional nature of the market at the present time. We are dealing not with one strong central government but with a relatively weak central political organization and six equally powerful, insofar as voting is concerned, individual states. Thus, compromises on important issues are very difficult to achieve. Furthermore, interpretation of statements by members of the Common Market Commission must be tempered by realistic appraisal of the political situation in each of the member countries. One thing seems certain, however. The variable levy system of price supports and supply management is here to stay. The difficulties associated with gaining acceptance of this system were so great that the Common Market nations are unlikely to discard it in favor of an alternative, regardless of the feelings of third countries such as the United States.

The true impact of the variable levy system on imports of agricultural commodities will not be known for some years. Even projections are difficult to make because of the failure to set the price level toward which grain policy will be directed. This decision undoubtedly is the most important single factor in determining the total level of protection and income support that is to be provided to farmers of the community.

But insofar as our discussion today is concerned, one issue is clear. The Common Market does intend to protect its agriculture to at least as great a degree as we in the United States. Also, for the most part, it is going to do this through actions taken at the border wherever feasible. Laying aside for the moment the question of whether the Common Market policies are more or less restrictive than the individual country policies that preceded it, it is abundantly clear that the generally expressed desire for freer trade among nations has not been a major influence in the determination of the domestic agricultural policies of the community. I suppose that in all fairness we should add that it has had little influence in the determination of our own agricultural policies also.

POSSIBLE OUTCOMES

This brings us to the third of the major beliefs I cited at the beginning. The ultimate resolution of the U. S.–Common Market debate may determine the conditions for agricultural trade for many decades to come.

The parties to the great debate now appear headed for a showdown. Armed with increased negotiating power provided by the Trade Expansion Act we have entered the preliminary skirmishes of the upcoming GATT negotiations determined to gain something for American agriculture. Attached to our initial offer of 50 percent linear cuts in tariffs was the condition that agricultural commodities must be included in the negotiations. While many people in the Common Market have reacted sympathetically to our position, the only concrete result has been establishment of several commodity committees under the auspices of GATT to explore the possibilities for world-wide agreements. At the same time, because the Common Market failed to respond favorably to our request for a reduction in poultry levies, we have initiated action to retaliate through tariff increases on certain imports of particular sensitivity to the Common Market.

What interpretation are we to place on these events? Does our retaliatory threat represent the start of a massive trade war? Is the Common Market bluffing simply to find out how far we will go? The situation resembles to a frightening degree the "chicken" game teen agers are supposed to play with automobiles. We and the Common Market are straddling the white line and are rapidly approaching the point of impact. Possibly we both are so committed to positions that we fear the loss of face resulting from a retreat more than we fear the collision. I would hope that this is not the case. Let us look at the particulars a little more closely.

As I mentioned earlier, the basic policy problems in Europe are essentially the same as those in the U. S. Unfortunately the commodity that is most sensitive politically to the Common Market also is one of the most important from the standpoint of American exports. I refer, of course, to grains. By insisting that the Common Market adopt a policy that guarantees access for American grains, we are forcing the European politicians to choose between pressure from us or from their own grain producers. Given the fact that grains are produced in every section of every Common Market country, what choice do you think they will make? To help you reach an answer, consider the choice we would make if the Common Market insists that we give up our policy of import quotas on dairy products.

Are we willing to let this impasse over trade in agricultural commodities prevent us and the world from benefiting from a continuation of the trend toward freer trade in other commodities? I hope not. However, the argument often followed is that if we give in and allow the protectionist tendencies in European agriculture to win out, are we not allowing, and in a sense condoning, a whole new wave of agricultural protectionism? Perhaps we are, but agricultural protectionism certainly is not new. The fact that we openly accept it for certain key commodities that are especially sensitive politically does not mean that we need accept it for all agricultural commodities. Is it not possible that the Kennedy round could lead to a significant reduction in protectionism outside the grain-livestock sector? Is it not possible that we might make some progress toward a real reduction in tariff and nontariff barriers in the politically less sensitive commodities? I think it is. But we must keep in mind that we also have some adjusting to do on this score.

If my logic has been clear, you will see that I have reached the point where I accept, not by choice but by necessity, agricultural protectionism for certain commodities of crucial importance to the success of agricultural price and income support programs. In this group are the commodities of the grain-livestock sector including dairy and, as far as the U. S. is concerned, probably cotton and tobacco as well. My acceptance is based on the fact that none of the developed countries appear to be willing or able to give up price and income support programs.

This begs the question, will this condition continue forever? It might but I hope it will not. The U. S.—Common Market debate might be the catalyst that finally forces us to recognize the universal nature of agricultural price and income problems in developed countries. Following this recognition should come a realization that policies generated in individual countries and designed to protect selfish interests will not resolve these problems. In other words, we may be approaching a time when domestic agricultural policies will be developed within a framework established, in part, by international consultation and deliberation.

This idea is not new. For example, we have heard arguments for some time that surplus disposal should be handled by an international group. FAO proposed a set of general guidelines for agricultural price and income policies many years ago. However, the idea of international restraints on domestic policy making has not been given serious consideration until recently. Now even Secretary Freeman has stated that in order to reach a satisfactory accord with the Common Market we are willing to place our own domestic policies in the negotiating pot.

The form that such a radical change in agricultural policy making might take is very much in doubt. The popular fad of the moment is international commodity agreements. I doubt, however, if we or the Common Market are prepared to accept the sort of conditions an effective agreement would require. A more realistic approach may be to adopt a set of ground rules of the FAO type with relatively broad discretionary powers resting with the individual state at first. Over time the range within which each country may set support prices, production controls, and surplus disposal procedures would be expected to become increasingly narrow.

CONCLUSION

The success of the Trade Expansion Act which represents one of our most important steps toward an Atlantic Community and a better world depends upon a well-informed American public. Its basic premise is that we are willing to lose on some commodities in order to gain on others. If the Trade Expansion Act is to be implemented effectively, our leaders must have the courage to override the pleas of selfish interest groups when such action is required in the national interest. It is unfortunate and perhaps unsound from an economic standpoint that agriculture may lose most in the initial negotiations. But it may be far better that agriculture accept some losses than that we all lose the long-run political and economic benefits of a true Atlantic Community.

During the coming year American policy makers must make some important decisions. Many of these decisions relate directly to agriculture, but the ultimate choice may determine the future course of Free World relations in all spheres. Our profession, and especially this group within the profession, bears a major responsibility for helping the American people see the issues involved more clearly. The challenges are great and the time is short. But perhaps we can help prevent future historians from citing 1964 as the year that the dreams of an Atlantic Community were shattered.